



Remarks For

The Hon. Jovita Carranza  
Deputy Administrator  
U.S. Small Business Administration

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Thank you, Ira [Lutsky], for that very nice introduction.

And thank you all for having me, along with some of my colleagues from the SBA, here today.

We had a very productive meeting last Friday at SBA headquarters, and I was very pleased to be able to join many of you for dinner on Monday.

It was a great dinner, and we had a great evening, continuing our dialogue on issues that are important both to all NADCO members and to SBA.

Both Administrator Preston and I understand the importance of strong partnerships to SBA. Nearly everything that we do depends on having good partners. And that, in turn, depends on us being a good partner ourselves.

One way we do that is by making sure that the agency listens and is responsive to our partners, like all of you. I know this is important for you, and it's also of great value for us. As we work to become more effective as an agency, we need to understand your concerns, and the concerns of everyone who utilizes our products.

It's great to be able to work with such dedicated partners, and let me say that we appreciate all of the support that NADCO has given to our 504 program.

As you all know, the SBA has experienced a period of impressive growth in our lending programs.

We have guaranteed a record number of small business loans for each of the last six fiscal years, increasing from less than 57,000 loans in FY 2002 to more than 110,000 loans in FY 2007.

The growth in the number of 504 loans has been equally impressive, from less than 5,500 in FY 2002 to more than 10,600 in FY 2007.

And the growth in volume has been equally impressive. Overall, we guaranteed more than \$20 billion in small business loans in the last fiscal year – about \$6 billion more than in FY 2002.

The 504 program has been a big part of that increase. While annual 7(a) loan volume increased by about \$2 billion over that time, annual 504 loan volume grew by almost \$4 billion [from \$2.4 billion in FY 2002 to \$6.3 billion in FY 2007].

The point is that we recognized 504 as an important driver of growth in our lending program.

So far in FY 2008, while 7(a) loan volume is down close to \$400 million compared to last year [more than 7 percent], 504 loan volume is slightly ahead of last year – by around \$12 million.

Both products are down in terms of numbers of loans, but, as with dollar volume, 504 is closer to where it was last year.

Our FY 2009 budget request supports a continued increase in 504 loans. Out of a total of \$28 billion in small business loan authority, our budget request includes \$7.5 billion for the 504 program. That's a 19 percent increase over loans made in FY 2007.

The growth in 504 is particularly important because 504 loans are great drivers of job creation and economic growth, which is, after all, what SBA programs are all about.

The evidence of 504's importance is everywhere.

I'd like to bring you attention also to a study completed by the Urban Institute, which is a well respected nonpartisan research institute here in Washington, examining the impact of 7(a) and 504 loans on the businesses that received them.

Companies that received 504 loans showed an increase in employment of 29 percent two years after receiving the financing...and an increase of 35 percent three years after receiving financing.

And two years after receiving a 504 loan, companies showed a 34 percent increase in sales. After three years, it was 44 percent.

There's certainly no shortage of great CDC success stories, and great companies that are stimulating economic development.

These are businesses like the Lixit Corporation, which has received two 504 loans from the Bay Area Development Company. Lixit is the world's largest manufacturer of small animal watering and feeding devices and animal care products. One of the things that makes Lixit such a great story is that it is the largest employer of disabled people in Napa County, California. Some 30 percent of its workforce is disabled, according to Lixit's president Linda Parks, and the company outsources some of its work to local workshops that employ disabled workers. In 2006, Lixit was nominated by SBA's San Francisco District office for Small Business of the Year.

Clearly 504 is an important program in terms of driving job growth and economic development. To continue the strong record of growth, SBA is making some changes to support more 504 lending.

To do this, we are working to be better partners for our lenders. We understand that there is a fundamental connectivity, as Administrator Preston says, between the effectiveness of our programs and the way we deliver them. There is a service around the service; the secondary factors are very important, and that's true for all of our lending programs.

These are other factors aside from fees that influence lenders' decisions to use our products. These are secondary factors like ease of use, timeliness and customer support.

In the past, we've heard concerns from lenders about:

- the complexity of SBA rules and the difficulty in understanding them,
- slow turnaround times and backups,
- paperwork burdens, and
- lack of support or clear assurances when they have issues.

These are problems that cause lenders to stop participating in SBA programs. It dampens our effectiveness and ultimately hurts small businesses.

- Lenders make SBA loans to people who cannot get conventional loans.
- If lenders leave our programs, those small businesses won't get that capital.
- If they don't get that capital, they can't invest in their businesses, grow, and generate jobs.

Unless our products are easy to use, and unless we are accountable, responsive, and provide support for our lenders, they won't make SBA loans.

So let me tell you about some of the changes that are making SBA a more responsive, reliable partner for our lenders.

First, we're addressing staffing issues. The strong growth in our programs like 504 that I mentioned earlier has implications for processing. As we're looking to build long term success, we first needed to create performance metrics in order to understand our needs. Even while doing this, we recognized a few areas that needed immediate assistance, and we have taken corrective action there.

We are also developing an active staffing strategy and staffing models for all of our production processes to ensure their long-term success as part of the development of strategic plans for our centers. We intend to authorize new

positions based on hard analysis that factors in gains from more efficient policies and processes, as well as better use of technology. We want to work smarter and not just harder.

So speaking of technology, we're leveraging technology to make the way we deliver our services predictable, prompt, and with little variation in the customer experience. That final point is very important – we need to consistently provide our customers with responsive and helpful service.

You've heard about ETran and our intention to get more of our lenders to communicate with us electronically. By doing this, we can minimize the risk of human error and make our operations more efficient, enhancing our customers' experience. We want to get the entire industry on ETran this year. To do that, however, we need to provide strong support for CDCs, and that also requires us to be able to staff those positions. And so we're looking at ways that we can do that effectively.

And we will soon have a full suite of modernized, internet accessible and fully searchable SOPs. Our new 50 10 is an important first step toward this goal. We've been hearing concerns about our current 50 10 from lenders, and in revising the SOP we've taken those comments into account. It's shorter, it's up to date, and it's more user-friendly for lenders. And it will be out in a couple of weeks.

All of these changes are part of our efforts to be a responsive, effective partner with a valuable brand promise. We're making these changes so that we can improve right now, and also so that we've built the groundwork to continue to improve in the future. Our lenders will continue to see initiatives to simplify our products and automate our processes in an effort to be easier to do business with.

The reason it is so important for us to work well with our partners in the lending community is because of the value our services provide to Americans, especially

those who may not have access to them otherwise. The SBA has a very important role in enabling all of America's small businesses, but our products are particularly important in economically distressed communities in our country.

Administrator Preston and I both believe that entrepreneurship has the ability:

- To create the kind of robust economic foundations that sustain vibrant communities
- to open opportunities for new jobs and new services
- To build a sense of optimism
- And to tap into another very strong force: ownership.

Our strongest advocate for small businesses is President Bush, who has worked hard to promote an ownership society because, as he has said,

*"...if you own something, you have a vital stake in the future of our country. The more ownership there is in America, the more vitality there is in America, and the more people have a vital stake in the future of this country."*

Small business ownership is crucial to our ownership society because small businesses are so vital to our economy. They account for around half of non-farm GDP and half of all private sector employment nationwide. And most important in this time of economic uncertainty, they are the source of the majority of new job creation in our economy.

Small business formation and growth can change the game for millions of Americans living in underserved areas of our country by bringing jobs, investment, and wealth creation opportunities to areas of our country that need it the most. These are areas where we see high poverty and unemployment – often in rural and inner-city markets.

And these are the communities where we know that when small businesses begin to take hold, they can change the face of the community and change the game for people who live there.

Small business ownership can be the gateway to opportunity for all Americans.

When we look closely at who uses SBA loans, we see that we are in a different place than the rest of the lending community. Another study from the Urban Institute compares SBA 504 and 7(a) loans to conventional small business loans. The results gave us a pretty clear picture of our role in relation to private lenders.

The study found that SBA-backed loans were three times as likely to go to minority-owned businesses, twice as likely to go to start-up companies, and also more likely to go to women-owned businesses than conventional small business loans. SBA's guaranties are helping the lending community more effectively reach these specific demographics. And underserved markets belong in that group as well.

In the last fiscal year, SBA increased loans to underserved markets by more than 5.5 percent, approving more than 30,000 loans for more than \$7.5 billion in those areas where we see much higher rates of poverty and unemployment – that's more than one-third of all loans we approved and it's growing faster than the overall portfolio.

We are continuing to expand our impact by leveraging the full spectrum of our products and services, along with the hard work and commitment of our partners. Our ability to reach underserved markets depends on our ability to develop the right partnerships in the right places to reach the areas with greatest unmet need and potential. As a part of our underserved markets initiative, we have:

- Launched new products, like Small/Rural Lender Advantage, to target specific markets.
- Given each SBA office a performance goal for making loans in underserved markets.
- And forged new partnerships to better deliver our counseling and technical assistance services.



And to reach these markets more effectively, Administrator Preston and I are leading an ambitious agenda of reforms across the agency. So far, I believe we have made very strong progress in the important task of making the SBA more responsive and customer focused.

And these changes are putting SBA on a long-term path of improvement. By fixing processes that are broken, we're helping the agency function more effectively now, but also laying the groundwork for the agency to continue to become more effective in years to come. We're packing a lot of reforms into a short period of time, and as a result the SBA will continue to become more effective, more efficient, and more customer focused.

Simply put, we succeed when our partners succeed. We set out what we want to accomplish, but you are the ones who make it happen. The needs around us are many – but so are the opportunities. I thank you for working with us to support small businesses and entrepreneurs across America.